

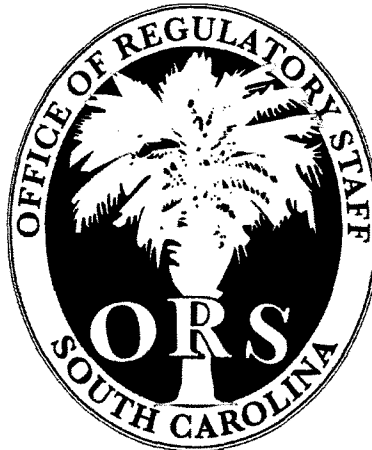
**THE OFFICE OF REGULATORY STAFF**

**DIRECT TESTIMONY**

**OF**

**DOUGLAS H. CARLISLE, JR.**

**OCTOBER 17, 2008**



**DOCKET NO 2008-196-E**

**Combined Application of South Carolina  
Electric and Gas Company for a Certificate  
of Environmental Compatibility and Public  
Convenience and Necessity and for a Base  
Load Review Order for the Construction and  
Operation of a Nuclear Facility in  
Jenkinsville, South Carolina**

1 **DIRECT TESTIMONY OF**  
2 **DOUGLAS H. CARLISLE, JR.**  
3 **FOR**  
4 **THE OFFICE OF REGULATORY STAFF**  
5 **DOCKET NO 2008-196-E**  
6 **IN RE: COMBINED APPLICATION OF SOUTH CAROLINA ELECTRIC &**  
7 **GAS COMPANY ("SCE&G") FOR A CERTIFICATE OF**  
8 **ENVIRONMENTAL COMPATIBILITY AND PUBLIC CONVENIENCE**  
9 **AND NECESSITY FOR A BASE LOAD REVIEW ORDER FOR THE**  
10 **CONSTRUCTION AND OPERATION OF A NUCLEAR FACILITY AT**  
11 **JENKINSVILLE, SOUTH CAROLINA**

12  
13 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**  
14 **OCCUPATION.**

15 **A.** My name is Douglas H. Carlisle, Jr. My business address is 1401 Main  
16 Street, Suite 900; Columbia, South Carolina 29201. I am the economist at the  
17 South Carolina Office of Regulatory Staff.

18 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
19 **EXPERIENCE.**

20 **A.** I received a Bachelor of Arts from Brown University, a Masters Degree in  
21 Public Administration from the University of Virginia, and a Ph.D. in  
22 Government and International Relations also from the University of Virginia.  
23 After graduate school, I worked as an evaluator and evaluator-in-charge for over

1 seven years at the United States Government Accountability Office in  
2 Washington, D.C. Then I worked as a market consultant and instructor at  
3 Midlands Technical College in South Carolina. I began work for the State of  
4 South Carolina at the State Reorganization Commission, which functioned as an  
5 audit follow-up entity. I was next employed by the South Carolina House  
6 Education & Public Works Committee. Before joining ORS, I worked five years  
7 for the State Chief Economist as an analyst in the Economist Research Section  
8 and as an adjunct to the Board of Economist Advisors. I assumed my current  
9 position at ORS in March of 2005. I have previously testified before this  
10 Commission concerning rate of return.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 **A.** My testimony addresses the capital structure of the South Carolina Electric  
14 & Gas Company ("SCE&G" or "the Company") and the conformance of the  
15 Company's Combined Application for a Base Load Review Order ("the  
16 Application") to the requirements regarding return on equity as provided by the  
17 Base Load Review Act ("the Act"), S.C. Code Ann. §58-33-210 *et. seq.* (Supp.  
18 2007).

19 **Q. HOW DID YOU DEVELOP THE COST OF CAPITAL FOR THIS**  
20 **PROCEEDING?**

21 **A.** The cost of capital is the utility's weighted cost of debt and equity capital  
22 that incorporates the cost of equity or allowed return on equity and the current  
23 weighted average long term cost of debt. These costs are then applied to the

1        respective percentages of long term debt and equity capital dollars according to  
2        their ratios to total capital dollars. The weighted average cost of long term debt  
3        is developed by weighting the cost of all issues of long term debt outstanding,  
4        with this cost being expressed as an interest percentage. The cost of equity,  
5        however, is set in rate proceedings. SCE&G had its return on equity set at 11%  
6        by Order 2007-855 of the Public Service Commission of South Carolina on  
7        December 14, 2007. In its Application, the Company used that return on equity.

8        **Q.    DID ORS REQUEST AN UPDATE FROM THE COMPANY OF THE**  
9        **CAPITAL COMPONENTS AND COMPONENT COST?**

10      **A.**        Yes. The application, in Exhibit L, indicates a capital structure and cost of  
11      capital based upon a snapshot of December 31, 2007. The Company has provided  
12      the ORS Audit Department an update based upon the end of the second quarter of  
13      2008. Exhibit DHC-1 shows the data provided. Based upon this updated  
14      information, ORS recommends the appropriate weighted average cost of capital at  
15      June 30, 2008 is 8.77% which should be utilized in this proceeding.

16      **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

17      **A.**        Yes it does.

**South Carolina Electric & Gas Company**  
**Base Load Review Act**  
**Capital Structure and Weighted Average Cost of Capital, Second Quarter Of 2008**

	<u>Amount</u>	<u>Ratio</u>	<u>Embedded Costs</u>	<u>Weighted Average Cost of Capital</u>	<u>Gross of Tax</u>
Long-Term Debt	\$ 2,216,488,400	44.33%	6.20%	2.75%	2.75%
Preferred Stock	\$ 113,938,800	2.28%	6.42%	0.15%	0.24%
Common Equity	\$ 2,669,810,160	<u>53.39%</u>	11.00%	<u>5.87%</u>	<u>9.56%</u>
	<u>\$ 5,000,237,360</u>	<u>100.00%</u>		<u>8.77%</u>	<u>12.54%</u>